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October 16, 2002

The Democratic Economic Plan – Bad for the Economy, Bad for Workers

On October 15, House Democratic Leader Richard Gephardt outlined a multiple-point economic plan. While Mr. Gephardt's speech included some proposals long championed by Republicans, including fiscal restraint and additional tax incentives for business investment, many of the Democrat proposals would in fact actually harm the economy. This document discusses some of those proposals.

Stimulus Spending

<u>The Democrat Plan:</u> "In the short-term, let us do what many economists have suggested and prime the pump so more money goes into the economy." – Minority Leader Dick Gephardt, October 15, 2002

<u>Reality:</u> The Democratic proposal would actually not pump any money into the economy and would actually reduce the number of permanent new jobs that would be created absent this proposal.

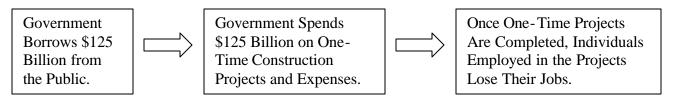
Mr. Gephardt proposed \$125 billion in new government spending, \$25 billion for school construction, \$25 billion to help states protect their infrastructure from terrorism, and \$75 billion for health care.

Because the government is running a deficit, implementing the Democrat plan would require the government to borrow from the public an additional \$125 billion so that the government could spend that money. In order for the government to borrow money from the public it has to sell to the public Treasury bonds and notes. The money that people use to purchase Treasury bonds and notes is money that they otherwise would have used to invest in U.S. companies, start a small business, or kept in savings at banks (which

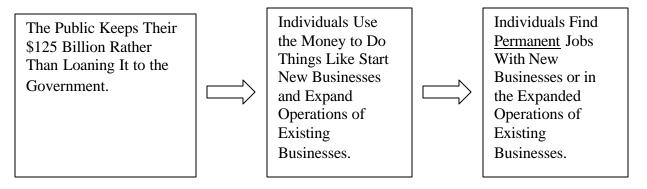
would have then used the money to make loans to individuals and businesses). No new money is put into the economy because of the Democrat plan.

Some of the money that the government takes out of private hands to fund new government construction programs would likely have been used to help start new businesses, open new manufacturing plants, or expand existing operations. These new and expanded businesses would have created permanent new jobs. The Democrat program may create a few new construction jobs today, but once those projects are over, there are no new plants and no new businesses for these individuals to work in. The Democrat plan will actually result in fewer permanent jobs.

The Economy With The Democrat Stimulus Plan



The Economy With OUT The Democrat Stimulus Plan



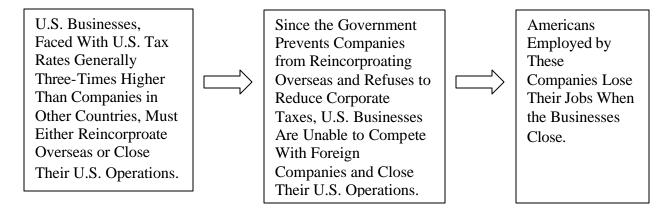
Corporate Taxes

The Democrat Plan: "...I propose that we get rid of the tax loopholes that encourage corporations to go overseas and laws that allow phony reincorporations abroad by American based companies." – Minority Leader Dick Gephardt, October 15, 2002

<u>Reality:</u> The Democrat Plan will force companies that had to choose between re-incorporating overseas and closing U.S. plants to shut down their U.S. operations, thereby actually increasing unemployment.

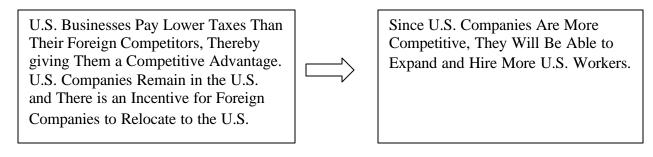
The corporations that have moved overseas or that have re-incorporated overseas have done so because the U.S. imposes the fourth highest tax rate in the world on corporations (soon to be the second highest once Belgium and Italy implement their planned tax reduction) and because unlike many other countries, the U.S. taxes businesses not only on the income they earn in the United States, but also on the money they make in other countries.

The Economy With The Democrat Stimulus Plan



A better solution to the problem of corporate inversion would be to reform the corporate tax code and reduce taxes on businesses, thereby eliminating the incentive for companies to re-incorporate overseas.

The Economy After Reforming the Corporate Tax Code



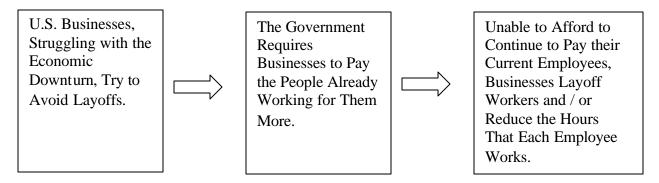
Minimum Wage Increase

The Democrat Plan: "I suggest we raise the minimum wage over the next three years. I agree with economists who say \$6.65 an hour is a reasonable goal to shoot for by January 2004."— Minority Leader Dick Gephardt, October 15, 2002

<u>Reality:</u> The Democratic proposal would actually increase the number of unemployed and reduce the number of hours each week for which employers can afford to pay low-income workers.

Last year the Congressional Budget Office did an analysis of a proposal to raise the minimum wage to \$6.65 an hour by January 2003. In that analysis, the non-partisan Congressional Budget Office (CBO) concluded that, "a plausible range of estimates of the potential job losses associated with an increase in the minimum wage to \$6.65 in January 2003 is roughly 200,000 to 600,000 jobs." CBO further stated that, "In addition to holding down the effect on their payroll costs by reducing the size of their workforce, [employers] could reduce the number of hours worked by some of their employees."

The Economy With The Democrat Stimulus Plan



A better solution to increasing employee pay would be to reduce taxes on business and individuals, making it easier for them to increase their payroll without increasing overall expenses and providing greater incentives for work and investment.

The Economy After Lowering Taxes on Businesses

